

CHANGE REQUEST for FY 08-09 BUDGET REQUEST CYCLE

Department:	Colorado Department of Public Health and Environment
Priority Number:	6
Change Request Title:	Internal Audit

SELECT ONE (click on box):

- ☒ Decision Item FY 08-09
☐ Base Reduction Item FY 08-09
☐ Supplemental Request FY 07-08
☐ Budget Request Amendment FY 08-09

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- ☒ Not a Supplemental or Budget Request Amendment
☐ An emergency
☐ A technical error which has a substantial effect on the operation of the program
☐ New data resulting in substantial changes in funding needs
☐ Unforeseen contingency such as a significant workload change

Short Summary of Request:

This change request is for 1.0 FTE and \$55,708 in Cash Funds Exempt (CFE) Indirect cost recoveries in the Administration and Support Division (ASD) to perform a variety of internal audit and fiscal monitoring functions throughout the Department (CDPHE).

Background and Appropriation History:

For nearly 20 years, the Department has allocated a portion of indirect revenue to support 1.0 FTE to perform internal audit functions. These duties include serving as CDPHE's audit liaison to the State Auditor's Office; conducting federally required audit tracking of more than \$100 million of federal pass-through funds; reviewing and approving approximately 25 indirect cost proposals and, performing internal reviews and audits of agency programs, as necessary.

General Description of Request:

The department is requesting 1.0 FTE and an increase of \$55,708 in CFE spending authority to hire an additional auditor. In addition to the steady increase in revenue during the past two decades, there are two more recent, reasons why the department believes this request is necessary. They are as follows:

- **Amendment 35** – In November 2004, Colorado voters approved a constitutional ballot initiative increasing the tax on cigarettes by 64 cents per pack. Of the estimated \$175 million of additional state revenue generated per year, CDPHE has assumed responsibility for managing approximately \$70 million annually. These funds are used to support programs that target tobacco cessation and prevention, and programs designed to prevent chronic diseases caused by tobacco use, including cancer, cardiovascular and lung disease. With the adoption of the implementing legislation (HB 05-1262), the Colorado General Assembly directed the department to distribute a substantial portion of this revenue through a community-based grant program. As a result, approximately 97 percent of all of this funding, received by the Department, is awarded to local public health agencies, private contractors, non-profit groups and community service providers.
- **Internal Controls** – In the past six years, both the U.S. Congress and the American Institute of Certified Public Accountants (AICPA) have initiated efforts to strengthen audit practices, including adopting higher standards for internal audit controls. Since the enactment of the Sarbanes-Oxley Act of 2002 (Sarbanes), auditing has become a more heavily regulated industry. Sarbanes created a new federal oversight body, the Public Company Accounting Oversight Board (PCAOB), to oversee audit examinations of public companies. The PCAOB and other stakeholders expect auditors to hold their audit clients to higher standards of accountability for internal controls and financial reporting in the post-Sarbanes environment. In May 2006, the AICPA issued a Statement on Auditing Standards (SAS 112), “Communicating Internal Control Related Matters Identified in an Audit.” SAS 112 incorporated many of the PCAOB’s definitions of significant deficiency and material weakness, including making the definitions used for audits of nonpublic entities consistent with those in place for audits of public companies.

There continues to be an increased emphasis from various oversight agencies and audit organizations to improve accountability. A key factor that helps achieve program results, accountability, and minimize operational problems is to implement appropriate internal controls. In addition, the number of reportable audit findings may increase because the

audit threshold for reporting internal control findings has been lowered. As the Department continues to improve operational processes and avoid these audit findings, staff must continually assess and evaluate current internal controls to assure the controls are effective and up to date, in order to reduce the risks of fraud, waste, abuse and mismanagement by monitoring and assuring compliance.

As a result of the growth in revenue, the mandate to distribute the funds statewide and the growing importance of having adequate internal controls, the department believes this request is an important tool in the state's efforts to monitor and assure compliance.

Consequences if Not Funded:

The department will remain vulnerable to being unable to perform sufficient monitoring and oversight of state and federal revenues. By utilizing additional audit staff, the Department may be able to misappropriation of public funds, similar to what was recently experienced at another government agency.

Calculations for Request:

Summary of Request FY 08-09	Total Funds	General Fund	Cash Funds	Cash Funds Exempt	Federal Funds	FTE
Total Request	\$55,708	\$0	\$0	\$55,708	\$0	1.0
Personal Services	\$51,694	\$0	\$0	\$51,694	\$0	1.0
Operating	\$4,014	\$0	\$0	\$4,014	\$0	0.0

Summary of Request FY 09-10	Total Funds	General Fund	Cash Funds	Cash Funds Exempt	Federal Funds	FTE
Total Request	\$52,333	\$0	\$0	\$52,333	\$0	1.0
Personal Services	\$51,833	\$0	\$0	\$51,833	\$0	1.0
Operating*	\$500	\$0	\$0	\$500	\$0	0.0

*FY09-10 operating includes only \$500 for supplies

Assumptions for Calculations:

Personal Services:	Annual Costs
Auditor II	
Class Min - \$3799 mo	\$45,558
PERA - 10.15%	\$4,627
AED and SAED	\$818
Medicare - 1.45%	\$661
Sub Total Personal Services:	\$51,694
Operating:	
Computer	\$959
Office Suite Software	\$300
Office Furniture	\$2,255
Supplies	\$500
Sub Total Operating:	\$4,014
Total Request:	\$55,708

Impact on Other Government Agencies: Not applicable to this request.

Cost Benefit Analysis: The additional costs associated with this position will double the number of internal audit staff (from 1 to 2) at minimal overall expense. Although the overall responsibilities will not be limited to monitoring the Amendment 35 revenue, the annual cost ratio of this FTE (approximately \$52,000) is a fraction of the annual revenue allocated (approximately \$70 million) to CDPHE annually through this funding source.

Implementation Schedule:

Task	Month/Year
Department posts announcement for Auditor II position	April 30, 2008
Auditor position is filled and monitoring function begins	July 1, 2008

Statutory and Federal Authority:

There is no statutory or federal authority regarding this request.

Performance Measures:

No specific performance measures are impacted by this request, however this position will indirectly support all of the Department's objectives by ensuring that the funding received is spent appropriately.